EDISON

Tourism Holdings

Initiation of coverage

Roam free

General industrials

Tourism Holdings (THL) is a New Zealand-based provider of tourism products for the 'roam free' free independent traveller (FIT) market. It has operations in New Zealand, Australia and the US. Its main product is motorhome rental and it also offers attractions and guided tours in New Zealand. THL has a rejuvenated board and is on a journey to restore return on capital employed (ROCE) to 14%, after a period where overcapacity in the New Zealand market reached 25% and THL's FY13 ROCE fell to 5.5%. It acquired two smaller players in November 2012 and has since reduced the New Zealand fleet by 22% (~550 motorhomes). Our peer comparison valuation, supported by our DCF model, suggests a value of NZ$1.65 per share.

Year end	Revenue (NZ$m)	EBIT (NZ$m)	EPS* (c)	DPS* (c)	P/E (x)	Yield (%)
06/13	224.6	14.6	3.4	4.0	40.6	2.9
06/14	226.7	23.9	9.5	11.0	14.5	8.0
06/15e	248.0	30.3	15.3	12.1	9.0	8.7
06/16e	260.3	35.5	18.3	14.5	7.5	10.6

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Restore ROCE

THL's immediate issue is to restore sub-optimal returns on capital employed to an acceptable long-term average of 14% pa and to implement more stringent capital allocation discipline. The poor ROCE performance was due to the industry's failure in a time of decreasing demand to match the supply of motorhomes with demand, resulting in excess capacity. The business model of investing in a motorhome fleet to rent to tourists means high capital utilisation, high fixed costs and sticky variable costs. FY14 NPAT of NZ$11.1m is an increase in earnings per share (EPS) of 180% and the improvement in ROaCE of 330bps to 8.8%, shows that the ROCE restoration journey has begun.

Pursue growth options

THL intends to pursue growth options that leverage the existing operations and have relatively low capital intensity. Its growth strategy should see it achieve average long-term earnings per share growth in high single digits, in line with the general market, while maintaining acceptable ROCE.

Valuation: The right to trade close to market multiple

THL's business will continue to experience volatility from factors beyond its control. Its strategy of returning ROCE to respectable levels and maintaining capital discipline should see THL achieve growth during the recovery period of FY15-16 of ~20% pa and then high single-digit average EPS growth in line with the general New Zealand market. As management executes on its strategy and lifts ROCE, we expect the discount to the market and peers to close. Our peer comparison valuation is NZ$1.65 after applying a 15% discount for size and time taken to achieve acceptable ROCE.

28 August 2014

Price	**NZ$1.38**
Market cap	**NZ$154m**

Net debt (NZ$m) as at end FY14	78.7
Shares in issue	111.9m
Free float	78%
Code	THL
Primary exchange	NZX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	19.7	25.0	129.5
Rel (local)	18.6	23.1	107.1
52-week high/low		NZ$1.40	NZ$0.58

Business description

Tourism Holdings listed on the NZX in June 1986. It is the largest motorhome rental operator in the world with a fleet of ~3,900 motorhomes.

Next event

AGM	26 November 2014

Analysts

Moira Daw +61 2 9258 1160

Roger Johnston +44 (0)20 3077 5722

industrials@edisongroup.com

Edison profile page

Tourism Holdings is a research client of Edison Investment Research Limited

Investment summary

Company description: Tourism products for the FIT market

THL offers tourism products that allow FITs to roam free in New Zealand, Australia and the US. THL's main business is the rental of motorhomes where it employs a build/rent/sell model, which allows it complete product control and the ability to right-size the fleet. Earnings comprise profits from both rentals and selling the fleet. It also operates a guided tours business in New Zealand. THL listed on the New Zealand Stock Exchange in June 1986 and is actively downsizing its fleet in New Zealand and Australia to remove an element of market oversupply. In the US THL operates a relatively small business (537 motorhomes) in a very large market, which allows it to reduce its fleet quickly if there is any sustained reduction in demand.

Valuation: NZ$1.65 per share using comparative company analysis

Our comparative company analysis using a group of peers that operate in the tourism business with high capital intensity business models suggests that THL is trading at a EV/EBIT multiple-based discount of 18-28%. A discount is warranted because THL has not yet shown it can consistently earn more than its cost of capital. The FY14 result which showed a lift in ROCE (end year) from 5.3% to ~9.6% provides some evidence that the ROCE benchmark of 14% is achievable.

Our DCF valuation, using a terminal growth rate of 3.0% and a post-tax WACC of 10.4%, is NZ$1.66 per share, which is a 20.2% premium to the current share price.

Financials: FY15 seen as crucial year

The board expects FY15 to show that THL is well on the way to achieving a ROCE run rate in line with the long-term expected average of 14% pa. This is to be achieved by a continued reduction in funds employed and cost control measures designed to lift earnings. The end FY14 net debt to EBITDA was 1.3x, which compares relatively favourably with the company's target of 2.0x. The two laggard businesses are New Zealand (ROCE in 2014 of 7.3%) and Australia (ROCE in 2014 of 4.6%). We have adopted a conservative approach, which means that the target 14% ROCE is not achieved until FY16. A 14% ROCE if achieved in FY15 would increase earnings per share in FY15 by 14%, which would reduce the FY15 EV/EBIT multiple from 8.0x to 7.0x.

Sensitivities: Gaining more motorhome converts

There is upside to our forecasts and our comparative multiples-based valuation if:

- the FIT market grows faster than we expect;
- THL is successful in converting customers to motorhome rental and away from car hire/hotel/independent accommodation alternatives; and
- there is an extension of the peak season due to changes in visitor behaviour (eg, China Chinese travel patterns) or from the impact of climate change.

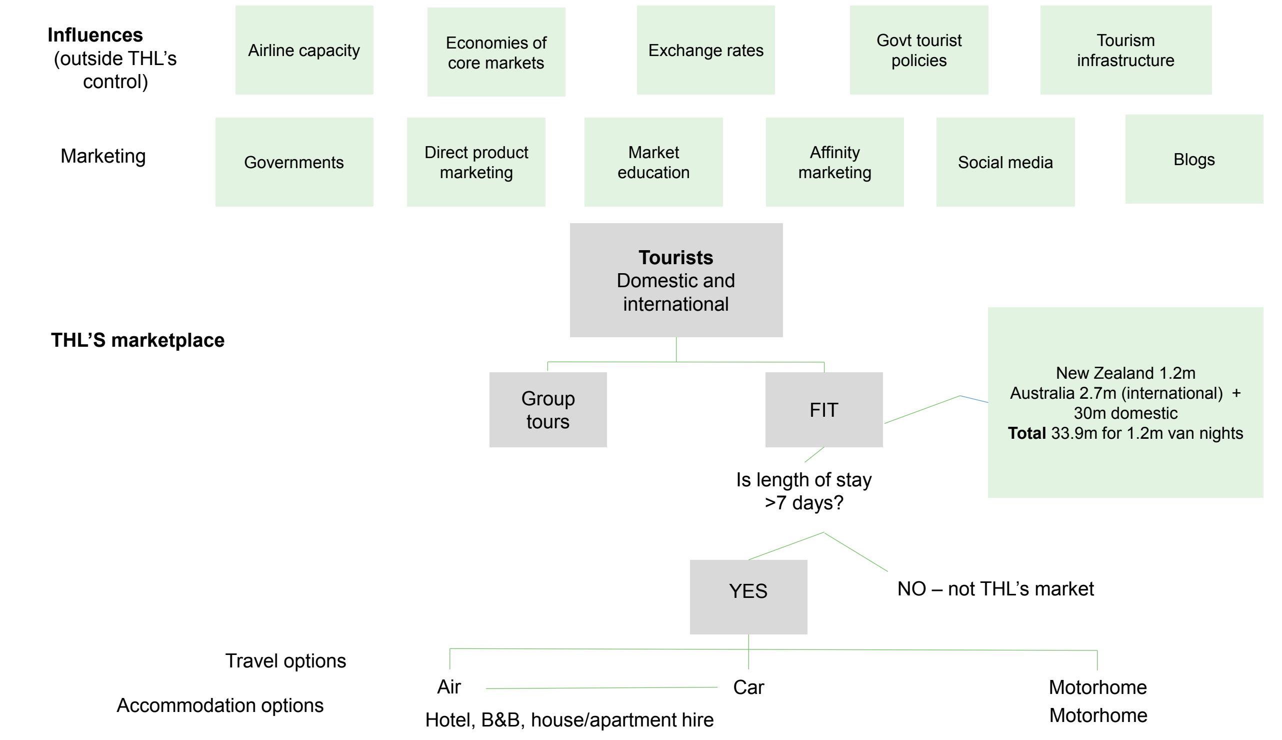
The biggest downside risk is an external travel shock that affects the whole tourism market. Operational risks relate to THL's ability to realistically estimate trends in demand and right-size the fleet. Other operational risks include cost control and the use of the marketing dollar.

Tourism products for the FIT market

THL is a New Zealand-based company that specialises in renting its fleet of ~3,900 motorhomes to FITs in New Zealand, Australia and the US. Growth in the FIT component of the travel market is expected to remain strong and to grow quickly because technology is allowing a greater proportion of travellers to 'roam free'.

The THL business model, key drivers and influences are described in the chart below:

Exhibit 1: THL business model

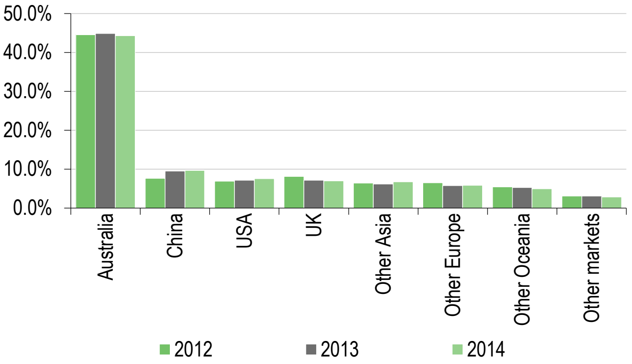


Source: Company data, Edison Investment Research

The market for motorhomes is primarily international tourists in New Zealand with the domestic market accounting for ~10%. In Australia the domestic market accounts for ~35% of motorhome demand.

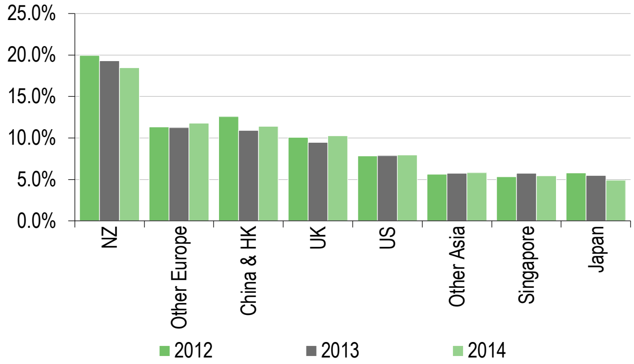
In New Zealand, the most significant tourism market is Australia, which accounts for about 45% of visitors and about 60% of visitor spend. Asia is a market of growing interest and it is expected that the trend towards more FITs from there will continue to accelerate. For the past two years China has been the second largest visitor market for New Zealand and in 2014 visitors from China were 39% more than visitors from UK, which previously occupied the number two spot.

Exhibit 2: New Zealand – international visitor arrivals (key markets)



Source: Statistics New Zealand

Exhibit 3: Australia – international visitor arrivals (key markets)



Source: Australian Bureau of Statistics (ABS)

In Australia demand for motorhome holidays from the domestic market depends on the strength of the local economy. When the exchange rate is low and economic conditions are tight, motorhome holidays are a cheaper alternative. Australia's most significant international tourist market is nearby New Zealand (18.5% of total visitors). Strong growth is coming from Asian markets, particularly China. The Australian Tourism Forecasting Council expects that by 2020 annual visitors from China will be 860,000. Visitors from China for the year ended 31 May 2014 were 753,300 or 87.5% of the 2020 target.

FITs currently represent a small proportion of visitors from Asia; however, this is expected to change rapidly with the emergence of the Asian millennial traveller (AMT), defined as those born between 1981 and 1995. A study by McKinsey, *Capturing the Asian Millennial Traveller*, estimated that 60% of the world's millennials (about one billion) reside in Asia and that peak spending from this group is expected within a decade. AMTs represent a significant opportunity for THL. Renting a motorhome meets the AMT desire for a unique, customised travel experience, something they can tell their friends about via social media.

Business model

The THL business model is to rent motorhomes in New Zealand, Australia and the US and offer guided tours in New Zealand. Guided tours are sold into the general tourist market and cross-sold to motorhome customers. An integral part of the business is ensuring fleet quality. This is done by acquiring and selling most of the New Zealand and Australian motorhomes through THL's joint venture partner RV Manufacturing. THL holds 50% of the joint venture (JV) with the remaining 50% held by related party Kea Manufacturing. THL accounts for less than 50% of the JV's profits. Motorhomes are sold within six years in New Zealand, four to five years in Australia and just over one year in the US. The fleet is depreciated while it is available for rent and the book profit (loss) is recognised at the time of the sale and recorded as part of earnings.

The motorhome business is capital intensive, with high fixed costs and entrenched variable costs. It is dependent on tourism patterns, in the main within the international markets, which in turn are influenced by prevailing economic conditions at home, airline capacity and the exchange rate.

Exhibit 4: THL divisional results FY14 (NZ$000s)

	NZ Services	NZ Sales	Australia Services	Australia Sales	US Services	US Sales	NZ Tourism	Group Services	TOTAL
Revenue	60,375	26,268	56,855	12,426	17,958	26,688	25,052	-	225,622
COGS/operating costs	(40,076)	(23,304)	(39,512)	(11,024)	(10,007)	(23,677)	(17,349)	(2,034)	(166,983)
EBITDA	20,299	2,964	17,343	1,402	7,951	3,011	7,703	(2,034)	58,639
Depreciation	(15,820)		(15,058)		(3,339)		(1,139)	(472)	(35,828)
Operating profit pre int, tax and JV	4,479	2,964	2,285	1,402	4,612	3,011	6,564	(2,506)	22,811
EBITDA margin	33.6%	11.3%	30.5%	11.3%	44.3%	11.3%	30.7%	N/A	26.0%
Operating profit margin	7.4%	11.3%	4.0%	11.3%	25.7%	11.3%	26.2%	N/A	10.1%
EBITDA margin (services + sales)	26.8%		27.1%		24.6%				
Operating profit margin (services + sales)	8.6%		5.3%		17.1%				

Source: Company data, Edison Investment Research

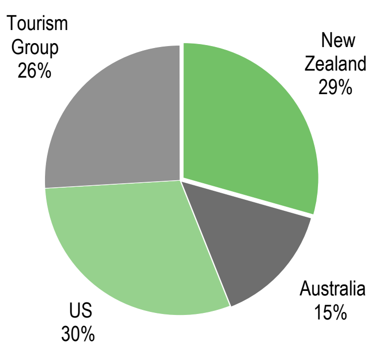
Exhibit 5: THL FY14 ROCE and net assets per van (NZ$)

	EBIT	Net assets	ROCE	Net assets/van
New Zealand	7,443	119,553	6.2%	57,446
Australia	3,687	65,002	5.7%	46,885
US	7,623	32,000	23.8%	57,376
Tourism	6,564	26,752	24.5%	
Group shared services	(2,506)	15,766		
Total	22,811	259,093	8.8%	

Source: Company data. Note: ROCE uses average capital employed during the period.

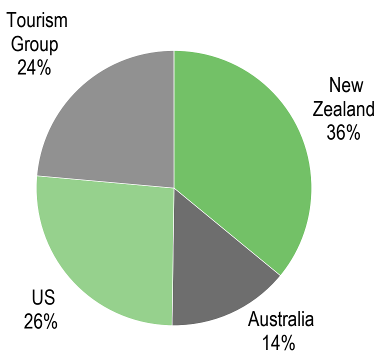
Following the merger of THL with United and Kea, THL operates ~45% of the motorhomes in New Zealand and 60% of the large motorhome market, which makes it the country's dominant player. The World Tourism Forecasting Council estimates growth in New Zealand to be 6% in FY15; some market share gains are expected to result in near-term double-digit revenue growth for the New Zealand motorhome market. By FY15 it is expected that the Australian business will have returned to acceptable levels of profitability.

Exhibit 6: THL segment EBIT FY14



Source: Company data

Exhibit 7: THL segment EBIT FY15e



Source: Edison Investment Research

New Zealand – a motorhome paradise (2,019 motorhomes)

New Zealand prides itself on its pristine 'middle earth' environment. It offers the FIT market an unparalleled range of landscapes from alpine regions, glaciers and rainforests to undulating lush pastures. New Zealand is ideally suited to motorhome travel because the landscape changes within relatively short distances, the road network is extensive and high quality, and there is an abundance of campsites and support services.

THL estimated that in 2011 the New Zealand motorhome market had excess capacity of about 25%. The capacity build began in the early 2000s and the chronic excess capacity situation emerged after the Rugby World Cup in 2011. It masked a fall in demand in the underlying market and operators faced tough times from 2011 as banks tightened lending covenants and some operators faced receivership or liquidation. In the last two years there has been a reduction in the total New Zealand fleet of an estimated 800 vehicles. The merger of THL with United and Kea in November 2012 for NZ$69.5m comprised equity of NZ$7.4m, cash of NZ$54.1m and deferred contingent consideration of NZ$8.0m. This acquisition was part of the transformation of the New Zealand rental motorhome industry and means that THL now controls about 45% of the total market in New Zealand. The assets were acquired at 80% of book value and post the merger THL's fleet increased from 1,500 motorhomes to 2,500 motorhomes. Management described the merger as "logical, strategic and the best response to the challenging realities of the current NZ market". THL estimates the combination of back office and service centre functions plus the cost savings related to lease costs and fleet capacity utilisation will increase annual EBITDA by NZ$4.4m from FY14. THL's fleet rationalisation programme saw the fleet reduce from 2,500 vehicles in November 2012 to 2,019 vehicles in 30 June 2014.

The merger means THL has the competitive advantages in the New Zealand market that come with size and scale. Competitive advantages include:

- Well recognised brands.
- The financial capacity to turn the fleet over more frequently, so it is younger.
- A comprehensive product range in terms of size and standard of fitout. This allows THL to appeal to a number of different market segments.
- A revenue base that allows THL to invest more marketing dollars than its competitors.
- A focus on using new technologies to reach customers who are influenced not only by traditional marketing methods but also by social media.

Demand for motorhome rental in New Zealand is expected to increase because changes in demographics and technology are likely to see the number of FITs grow, particularly from the emerging Asian markets.

The Australian motorhome market (1,336 motorhomes)

The Australian market faces the challenge of matching capacity with demand. The market continues to suffer from an oversupply of product; on the demand side, the exchange rate and cost structure means FITs see Australia as an expensive destination. The Australian dollar remains stubbornly high at US$0.94/A$. THL has reduced its fleet by ~400 motorhomes since 2011 and plans to continue to rightsize it and aggressively cut costs in an effort to lift returns. ROCE in FY14 of 4.6% is up from 1.6% in FY13.

US motorhome business (537 motorhomes)

The US business is able to earn returns of more than 20% because of the structure of the business. Motorhomes are only in the rental fleet for just over 12 months and the size of the motorhome market in the US means the fleet is easy to rightsize. For these reasons the US motorhome business is the group's star performer.

Guided tourism – New Zealand

The tourism business, which includes Kiwi Experience and the Waitomo Caves, represents 9-10% of revenue but continues to perform well and in FY14 achieved ROCE of 24%. The Waitomo Caves guided tour is striking a chord with the growing number of tourists from China. This is a low capital cost business with significant operating leverage. The Kiwi Experience business continues to attract new contracts.

Strategy for sustainable growth

THL has embarked on a strategy of restoring ROCE to more acceptable levels. This follows several years of returns below the cost of funds, a period described by new board chairman Rob Campbell as an “unacceptably poor ROCE record”. The immediate target is to show that THL is on the way to achieving ROCE of 14% by FY15. THL’s mantra is to rightsize the fleet, which is currently ~3,900 vehicles, to ~3,700 vehicles. This will reduce funds employed, decrease debt so that net debt is no more than 2x EBITDA and increase NPAT, dividends and ROCE.

The restoration of returns is still a work in progress as THL focuses on leveraging the existing assets by creating cross-selling opportunities and investing in low capital growth options. The FY14 result showed some early signs of success with EBIT up 57% compared with FY13. FY14 NPAT of NZ$11.1m was 5.7% ahead of guidance and ROaCE increased from 5.5% to 8.8%. THL uses year end capital employed rather than average capital employed which is used in Edison Investment Research calculations of ROCE. The THL measure of FY14 ROCE is 9.6%.

Board

Renewal of the board began in FY13, when three new non-executive directors were appointed.

Exhibit 8: THL board

Directors	Position		Appointed	Directorships	Background
Rob Campbell	Chair	Non exec	May 13	Summerset Group, Precinct Properties, Turners & Growers	Capital markets, finance, private equity
Graeme Bowker	Audit committee chair	Non exec	Feb 03	Silverstripe Australia	Partner Deloitte
Christina Domecq		Non exec	Feb 14	Locallist, ORa HQ, International Trading Cartel, NZ Market Ltd, Wild Logic Ltd, Harmoney Corp Ltd	Technology entrepreneur, start-ups, CEO Localist
Kay Howe		Non exec	Oct 12	THL Corporate Trustee Ltd, Hauraki Motor Homes Ltd, Hauraki Enterprises Ltd	Tourism
David Neidhart		Non exec	Jun 13	Nil	Finance, strategy
Graeme Wong	Remuneration chair	Non exec	Nov 07	Precinct Properties, Areograph, Southern Capital Partners	Stockbroking, capital markets

Source: Company data

Strengths, weaknesses, opportunities and threats

Opportunities for THL include:

- converting tourists into motorhome customers;
- adding to its service offering and cross-selling the product range; and
- extending the peak season thanks to changing weather and travel patterns in the Chinese market.

Exhibit 9: THL SWOT analysis

Strengths	Opportunities
International scale (largest fleet internationally)	Converting more tourists to motorhome customers
60% market share in NZ (excluding small vans)	Expand digital footprint
Flexibility of US business	Growth in FIT market driven by demographics and technology
Similar customer base in all markets	Product cross-selling
Serving the growth FIT market	Extending the peak season
Home base (NZ) is the number one motorhome market globally	Educating potential markets on RV segment
End to end operation	Fleet rationalisation
Ability to repay debt quickly	Streamlining rental process
Management and board	Significance of tourism to NZ/Australian markets
Management includes owner/operators	Extension of the peak season (weather and travel patterns)
Geographic spread	
Input to design and manufacturing through JV	
Company's length of time in market and product reputation	
Weaknesses	**Threats**
High capital intensity of core business	Tourism shock (eg 9/11 event)
Restricted peak season	Car/hotel price competition
Unable to control exchange rates, transport, economies of key markets	Collapse of the second-hand motorhome market
High fixed cost base	
Variable costs take time to trim (eg branch closure)	

Source: Edison Investment Research

Management

The management team is a mix of experience and new blood. The CEO has been a THL employee for nine years and in the role for almost six. The divisional heads have been with the company for four years or less and there are three former owner-operators providing significant experience. Recent hires include the CFO, who has a long-standing track record in related businesses in New Zealand including media, telecommunications and entertainment, and a new position (chief technology officer), which recognises the growing importance of the digital world when connecting with the customer.

Management and shareholder interests are aligned because both the short-term and long-term incentive plans focus on earnings per share growth and return on invested capital.

Exhibit 10: THL management

	Position	Appointed	Started at THL	Qualifications	Background
Grant Webster	CEO	Dec 08	2005	Finance	Tourism
Mark Davis	CFO	Feb 14	Feb 14	Finance	Media, gaming
Grant Brady	MD Mfg	Nov 12	Nov 12	N/A	Founder of Kea/owner operator
Keith Chilek	CTO	Jul 14	Jul 14	Bus admin	Technology
Matt Harvey	GM Aust	Aug 13	Apr 10	Finance	Tourism
Mike Horne	GM NZ	Sep 10	Sep 10	Business	Tourism
Kate Meldrum	GM Sales	Apr 14	1991	Business	Tourism
Daniel Schneider	CEO US	Dec 10	Dec 10	Auto eng	Motorhome owner operator

Source: Company data

Sensitivities

THL is exposed to the global tourism industry, which means it cannot protect itself from external shocks. However, it does benefit from operating in New Zealand and Australia, where the importance of tourism to the economy means both governments are likely to continue to be supportive. The THL products are designed for the FIT market, where growth is expected to accelerate because of changing demographics and the impact of technology, which makes it easier for travellers to be independent. The challenge for THL is to convince travellers of the attraction of going anywhere, off the beaten track, taking their home with them.

Tourist numbers are affected by the exchange rate and by economic factors in the home markets including GDP, consumer confidence and unemployment. However, because the proportion of FIT's renting motorhomes is relatively small (measured in low single digits), tourism numbers are of less importance than the conversion factor.

In chasing the FIT tourism dollar, THL faces competition from the hire car/hotel/self-catering accommodation markets. Motorhome travel enjoys a price advantage, which means there would need to be substantial discounting by car hire/hotel operators before these markets represented a significant threat.

The business has high fixed costs and in New Zealand and Southern Australian there is a peak season of three to four months. This presents THL with the challenge of extending the season. However, new growing markets such as China have patterns of travel that could extend the season by a month, or 25-33%. It is also possible that global warming could be a positive factor in the New Zealand market, where recent periods suggest warmer temperatures for longer and drier winters.

The high capital intensity issue is offset to some extent by THL's end-to-end control of the motorhome product. It designs and manufactures (through its joint venture) motorhomes that are suitable for the local market conditions in Australia and New Zealand and its vehicle trading history shows there is a ready market for the second-hand product. The recent consolidation of the Albany site in Auckland provides a high-profile market place for motorhome sales and will help THL to continually right-size the fleet to match supply with forecast demand patterns.

Valuation

Valuation considerations

Our valuation method includes comparative company analysis and consideration of the pricing of THL relative to the whole New Zealand market. We have used a DCF calculation as a cross-check of our peer comparison. We have chosen comparative analysis because most investors will be viewing the growth prospects, the earnings certainty, cash generation and returns to shareholders alongside competing investment opportunities. An investment in THL is a play on the strength of the global economy and increasingly on the strength of the closer Asian economies.

We feel that THL should be able to build a case to trade close to the overall New Zealand market and its peer group. The FY14 result shows that THL has made a promising start with a 330bps improvement in ROaCE and a reduction in net debt of NZ$41.3m to NZ$78.7m. However, it will take one to two more years for THL to put runs on the board and build the necessary investor confidence. Until then, a discount to the peer group and the market is warranted.

Peer group comparatives

The peer group below has been selected because all companies share common business characteristics including high capital intensity and exposure to global tourism. With the exception of Fleetwood Corporation, which manufactures caravan and portable housing and operates accommodation villages in remote areas of Australia, all comparatives have market caps in thousands of millions of dollars.

Exhibit 11: THL peers – margins, returns and gearing comparisons

	Ticker	Market cap ($m)	Revenue (FY0, $m)	EBITDA FY14-16	EBIT FY14-16	ROE FY14-16
Peers						
Air New Zealand Limited	AIR-NZ	NZ$2,157	4,147	17.3%	8.2%	12.0%
Amalgamated Holdings Ltd	AHD-AU	A$1,556	1,097	17.4%	11.8%	10.1%
Ardent Leisure Group	AAD-AU	A$1,343	500	21.8%	15.9%	12.2%
Fleetwood Corporation Limited	FWD-AU	A$146	367	9.5%	4.5%	4.5%
Qantas Airways Limited	QAN-AU	A$2,855	15,902	9.5%	-0.2%	-3.6%
Flight Centre Travel Group Limited	FLT-AU	A$4,749	1,986	19.4%	17.0%	23.5%
Village Roadshow Limited	VRL-AU	A$1,214	939	19.5%	13.2%	13.4%
Peers mean				16.3%	10.0%	10.3%
Peers median				17.4%	11.8%	12.0%
Car rental companies						
Avis Budget Group, Inc.	CAR-US	US$7,715	8,536	11.3%	12.8%	37.7%
Hertz Global Holdings, Inc.	HTZ-US	US$14,593	11,585	19.1%	17.0%	20.2%
Car rental company mean				15.2%	14.9%	28.9%
Car rental company median				15.2%	14.9%	28.9%
Tourism Holdings	THL.NZ	NZ$154	223	26.2%	12.2%	10.3%

Source: Factset, 26 August 2014, Edison Investment Research

Exhibit 12: THL peers – multiples comparisons

	Ticker	EV/ EBITDA (FY1)	EV/ EBITDA (FY2)	EV/ EBITDA (FY3)	EV/ EBIT (FY1)	EV/ EBIT (FY2)	EV/ EBIT (FY3)	P/E (FY1)	P/E (FY2)	P/E (FY3)	P/NTA (FY1)	Yield (FY1)	EPS CAGR FY15-17	PEG FY15-17
Peers														
Air NZ	AIR-NZ	3.6x	3.4x	3.1x	7.5x	6.8x	6.4x	9.8x	9.2x	7.8x	1.3x	4.7%	18.2%	0.5x
Amalgamated Hlds	AHD-AU	7.6x	7.1x	6.5x	11.2x	10.3x	9.3x	16.7x	15.2x	13.6x	1.7x	4.7%	13.9%	1.2x
Ardent Leisure	AAD-AU	12.5x	10.7x	9.3x	17.3x	14.6x	12.8x	19.7x	16.7x	14.3x	2.3x	4.8%	15.0%	1.3x
Fleetwood Corp	FWD-AU	5.2x	4.5x	3.8x	10.4x	9.1x	5.9x	13.8x	10.2x	7.3x	0.7x	2.7%	53.1%	0.3x
Qantas Airways Limited	QAN-AU	6.9x	4.5x	3.5x	-12.8x	0.0x	14.7x	-5.1x	-18.4x	15.8x	0.6x	0.0%	39.9%	-0.1x
Flight Centre	FLT-AU	9.0x	8.3x	7.7x	10.3x	9.4x	8.7x	17.9x	16.4x	14.9x	17.9x	3.2%	9.1%	2.0x
Village Roadshow	VRL-AU	8.0x	7.5x	7.2x	12.1x	11.0x	10.5x	17.2x	15.4x	14.5x	2.0x	5.0%	14.7%	1.2x
Peers mean		7.6x	6.6x	5.9x	8.0x	8.8x	9.7x	12.8x	9.2x	12.6x	3.8x	3.6%	23.4%	0.9x
Peers median		7.6x	7.1x	6.5x	10.4x	9.4x	9.3x	16.7x	15.2x	14.3x	1.7x	4.7%	15.0%	1.2x
Car rental companies														
Avis Budget Group, Inc.	CAR-US	11.0x	9.5x	8.6x	9.5x	8.5x	7.6x	23.2x	18.1x	15.3x	8.5x	0.0%	27.1%	0.9x
Hertz Global Holdings, Inc.	HTZ-US	13.1x	11.1x	10.3x	15.2x	12.9x	11.1x	21.0x	15.8x	13.8x	4.0x	0.0%	10.6%	2.0x
Car rental company mean		12.0x	10.3x	9.5x	12.4x	10.7x	9.4x	22.1x	17.0x	14.5x	6.3x	0.0%	18.8%	1.4x
Car rental company median		12.0x	10.3x	9.5x	12.4x	10.7x	9.4x	22.1x	17.0x	14.5x	6.3x	0.0%	18.8%	1.4x
Tourism Holdings	THL.NZ	3.8x	3.6x	3.5x	9.8x	7.7x	6.6x	14.5x	9.0xx	7.5x	1.0x	8.0%	29.4%	0.3x

Source: Factset, 26 August 2014, Edison Investment Research

When compared with Fleetwood (market cap A$146m), THL currently trades at a 15% discount using FY15 EV/EBIT multiples and a 16% discount to the FY15 P/E multiple. The discount to the tourism peer group and rental car group using FY15 multiples is between 18% and 28%; using FY15 P/E the discounts range from 43% to 49%.

As THL continues to deliver on earnings guidance and demonstrates to the market it is walking the walk when it comes to capital management discipline, it will warrant a multiple re-rating. It is appropriate to apply a size discount and take into account that THL is still in a turnaround phase. In our multiples-based valuation we have assumed a 15% discount for size and the additional time taken to achieve a turnaround. We have used an EV/EBIT multiple of 9.6x and applied a 15% discount to arrive at a valuation of NZ$1.65 per share, which puts THL on an FY15 EV/EBIT multiple of 7.8x, lower than all in the peer group except Air New Zealand.

Exhibit 13: THL EBIT multiple comparisons

	FY15 P/E	FY15 EV/EBIT	FY15 yield
Tourism peer mean	9.2x	8.8x	3.6%
Tourism peers median	15.2x	9.4x	4.7%
Car rental mean	17.0x	10.7x	0.0%
Car rental median	17.0x	10.7x	0.0%
THL	**9.0x**	**7.7x**	**8.2%**

Source: Consensus estimates (FactSet, 26 August 2014), Edison Investment Research estimates

Exhibit 14: Implied share price

	Peers high	Peers low	Fleetwood	Edison
EBIT multiple (x)	10.7	8.8	9.1	9.5
EBIT (NZ$m)	30.2	30.2	30.2	30.2
EV (NZ$m)	323.7	264.7	276.0	287.4
Net debt (NZ$m)	70.0	70.0	70.0	70.0
Equity value (NZ$m)	253.7	194.7	206.0	217.3
No of issued shares	111.9	111.9	111.9	111.9
Valuation per share	NZ$2.27	NZ$1.74	NZ$1.84	NZ$1.94
Size discount	15%	15%	15%	15%
Valuation after discount	NZ$1.93	NZ$1.48	NZ$1.56	NZ$1.65

Source: Peer group multiples (Factset, 26 August 2014), Edison Investment Research estimates

DCF valuation

Our DCF valuation uses a post-tax weighted average cost of capital of 10.4% and a terminal growth rate of 3.0%. The DCF valuation is very sensitive to assumptions made relating to capital expenditure. A 10% reduction in capital expenditure would increase our DCF by 9% from NZ$1.66 to NZ$1.81.

Exhibit 15: THL discounted cash flow valuation (NZ$m)

	2014	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e
	30-Jun-14	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23
	0	1	2	3	4	5	6	7	8	9
EBIT (total group incl. Assoc)	23.9	30.2	35.5	39.1	41.3	43.8	46.4	48.7	51.1	52.6
Tax	7.1	8.5	9.9	10.9	11.6	12.3	13.0	13.6	14.3	14.7
Depreciation and amortisation	37.4	33.7	31.6	30.8	30.6	30.6	31.2	31.8	32.3	32.3
Maintenance capex	1.6	6.7	15.8	18.5	19.9	24.5	25.0	25.4	25.8	32.3
Expansionary capex	0.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0.0
Incremental working capital	0.0	(2.8)	(0.2)	(0.1)	0.0	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Free cash flow	52.6	35.9	31.1	30.4	30.4	27.4	29.4	31.2	33.0	37.6
Growth		-31.7%	-13.4%	-2.4%	0.1%	-9.8%	7.2%	6.0%	5.9%	14.1%
EBITDA	25.5	30.2	35.5	39.1	41.3	43.8	46.4	48.7	51.1	52.6
	2015e	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**Terminal**
Free cash flow	35.9	31.1	30.4	30.4	27.4	29.4	31.2	33.0	34.0	35.0
Discount	0.906	0.820	0.743	0.672	0.609	0.551	0.499	0.452	0.409	0.371
Discounted value	32.5	25.5	22.6	20.4	16.7	16.2	15.6	14.9	13.9	13.0
Sum of PV	178.3									
Terminal value at FY22e	227.2									
Discount factor	0.339									
PV of terminal value	77.0									
PV of enterprise	255.3									
Debt	70.0									
Net value for shareholder	185.3									
Number of shares in issue (m)	111.8									
NPV	NZ$1.66									

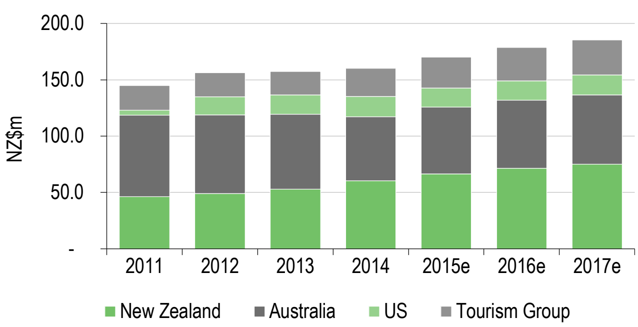
Source: Edison Investment Research

Financials

Earnings

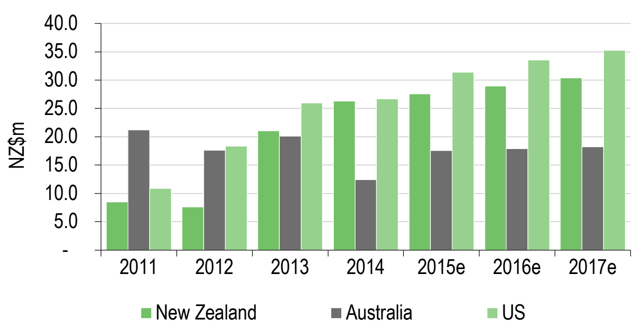
The FY14 result was ~6% ahead of guidance and all key metrics were above expectations. We expect THL will restore ROCE to a long-term average run rate of 14% by FY16 and that there will be three years of above trend growth in EBIT driven by a focus on fleet rationalisation and cost control. We expect EBIT to increase by 26% in FY15, 17.5% in FY16 and 10.1% in FY17 before returning to the expected growth rates in the tourism market of between 5% and 6% pa. We expect EBIT margins to recover from 10.5% in FY14 to ~14% over the next three years.

Exhibit 16: THL services revenue



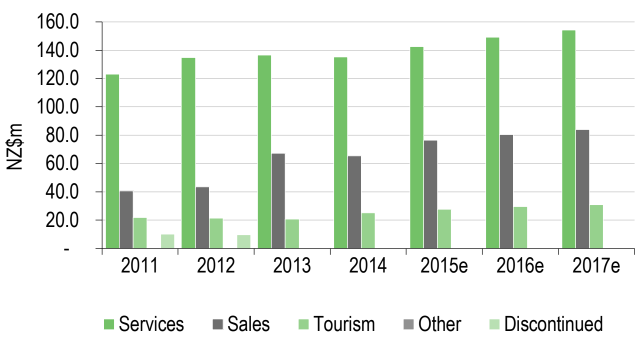
Source: Company data, Edison Investment Research

Exhibit 17: THL sales revenue



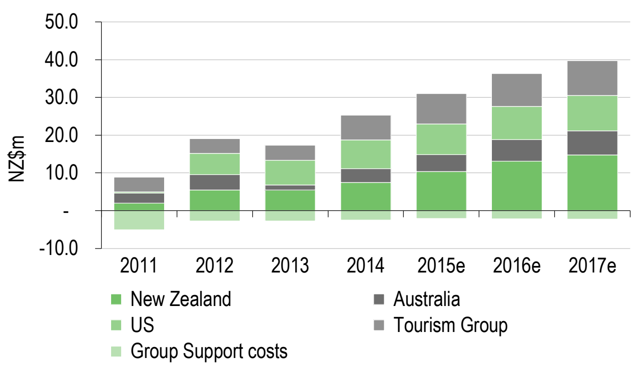
Source: Company data, Edison Investment Research

Exhibit 18: THL revenue per product



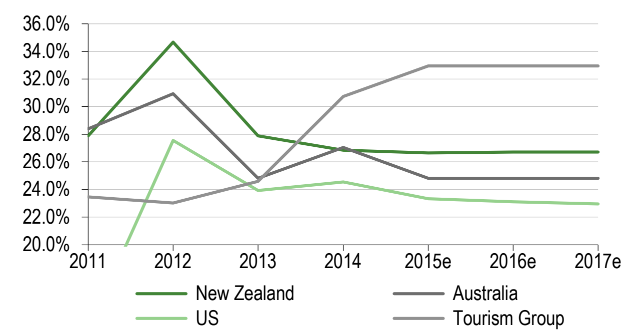
Source: Company data, Edison Investment Research

Exhibit 19: THL EBIT per market



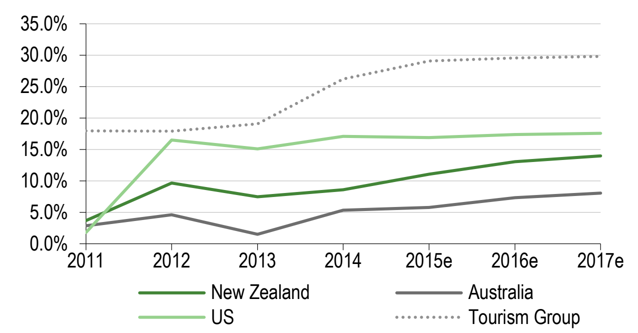
Source: Company data, Edison Investment Research

Exhibit 20: EBITDA margins



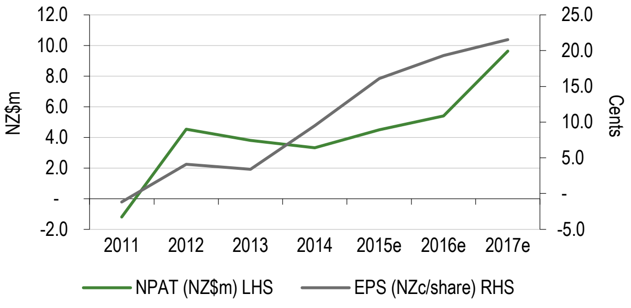
Source: Company data, Edison Investment Research

Exhibit 21: EBIT margins



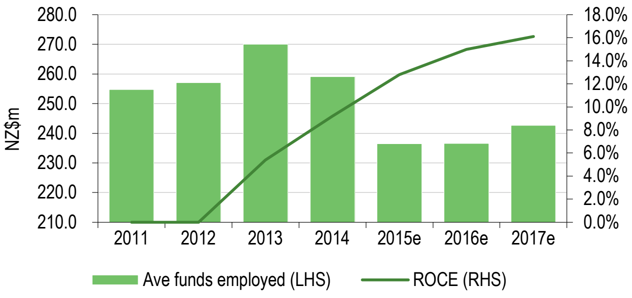
Source: Company data, Edison Investment Research

Exhibit 22: THL NPAT and EPS



Source: Company data, Edison Investment Research

Exhibit 23: THL ROCE and average funds employed

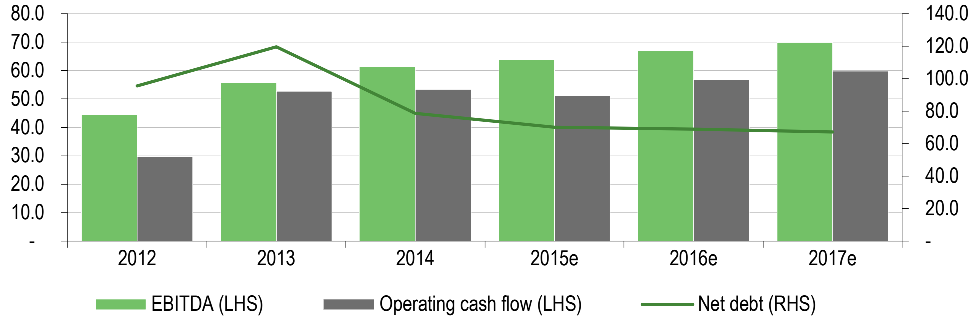


Source: Company data, Edison Investment Research

Cash flow

THL treats fleet purchases and sales as operating earnings. Profits on sale of fleet vehicles, which is the difference between the sale price and the book value of the vehicles sold, will be different from the movement in cash; this will include vehicle purchases and vehicle sales during the periods. Timing differences between booking profits from the services and tourism businesses and the receipt of cash are immaterial.

Exhibit 24: THL operating cash vs profit, net debt (NZ$m)



Source: Company data, Edison Investment Research

Balance sheet

The fleet rationalisation programme is expected to result in a substantial deleveraging of the business. The board has stated that it is comfortable with net debt/EBITDA of 2x.

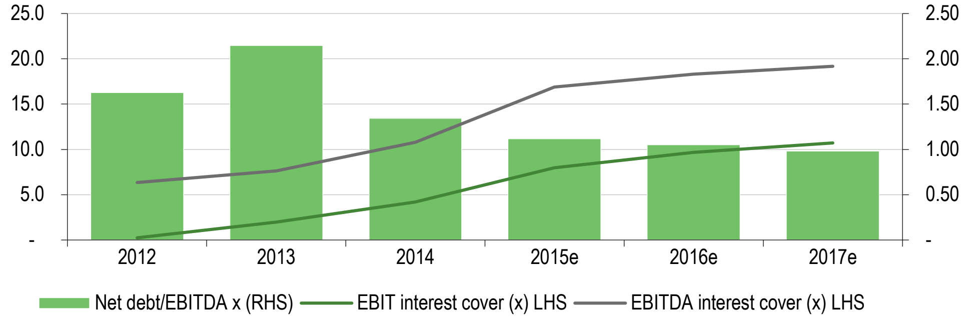
THL has a working capital facility and a three-year multi-option facility with a consortium of Australian and New Zealand banks that holds a composite first ranking debenture over the assets and undertakings of THL in New Zealand and Australia. The leases relate to hire purchase loans secured over the motorhome fleet.

Exhibit 25: THL borrowings 30 June 2014 (NZ$000s)

	Current	Non current	Interest rates
Bank borrowings – 1-2 years	4,400	-	2.77% to 6.33%
Bank borrowings – 2-5 years		61,033	2.77% to 6.33%
Other loans – 1-2 years	7,729		3.1%
Other loans – 2-5 years		1,898	6.0%
Capitalised lease obligations	3,403	3,676	
	15,532	66,607	
Denominated in:	NZ$	A$	US$
Balance 30 June 2014	52,789	12,899	16,451
Undrawn facilities <1 year	9,853		
Undrawn facilities >1 year	20,893		
Undrawn facilities – fixed rate	-		

Source: Company data

Exhibit 26: THL net debt/EBITDA and interest cover ratios



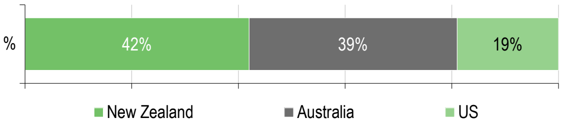
Source: Company data, Edison Investment Research

The valuation of assets is regularly verified by the motorhome market because THL is continually selling vehicles. To date THL has not recorded a loss on sale, which indicates it is valuing its assets conservatively.

Exhibit 27: Financial summary

NZ$000s	2012	2013	2014	2015e	2016e	2017e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	199,962	224,621	226,668	248,001	260,310	270,726
Cost of Sales	(41,588)	(61,644)	(58,005)	(64,244)	(67,541)	(70,467)
Gross Profit	158,374	162,977	168,663	183,757	192,769	200,259
EBITDA	44,472	55,726	61,322	63,936	67,054	69,923
Operating Profit (before amort. and except.)	1,631	14,559	25,494	31,911	36,515	40,119
Intangible Amortisation	0	0	(1,637)	(1,663)	(1,040)	(1,040)
Exceptionals	0	0	0	0	0	0
Other	0	0	0	0	0	0
Operating Profit	1,631	14,559	23,857	30,248	35,475	39,079
Net Interest	(6,993)	(7,302)	(5,694)	(3,784)	(3,663)	(3,645)
Profit Before Tax (norm)	(5,362)	7,257	19,800	26,464	31,812	35,434
Profit Before Tax (FRS 3)	(5,362)	7,257	18,163	26,464	31,812	35,434
Tax	(2,814)	(2,081)	(7,047)	(8,469)	(10,180)	(11,339)
Profit After Tax (norm)	4,530	3,808	11,116	17,996	21,632	24,095
Profit After Tax (FRS 3)	(8,176)	5,176	11,116	17,996	21,632	24,095
Average Number of Shares Outstanding (m)	98.2	106.2	110.8	111.9	111.9	111.9
EPS – normalised (c)	4.6	3.6	10.0	16.1	19.3	21.5
EPS – normalised and fully diluted (c)	4.1	3.4	9.5	15.3	18.3	20.4
EPS – (IFRS) (c)	(8.3)	4.9	10.0	16.1	19.3	21.5
Dividend per share (c)	2.0	4.0	11.0	12.1	14.5	12.9
Gross Margin (%)	79.2	72.6	74.4	74.1	74.1	74.0
EBITDA Margin (%)	22.2	24.8	27.1	25.8	25.8	25.8
Operating Margin (before GW and except.) (%)	0.8	6.5	11.2	12.2	13.6	14.4
BALANCE SHEET						
Fixed Assets	238,012	275,366	256,355	239,404	233,615	231,277
Intangible Assets	23,665	22,578	20,790	20,790	20,790	20,790
Tangible Assets	205,115	244,339	228,957	212,006	206,217	203,879
Investments	9,232	8,449	6,608	6,608	6,608	6,608
Current Assets	57,075	54,444	39,180	51,289	63,580	76,525
Stocks	26,205	20,459	17,281	9,279	9,743	10,123
Debtors	17,512	19,126	15,119	16,581	17,411	18,089
Cash	4,083	5,480	3,479	12,128	13,124	15,012
Other	9,275	9,379	3,301	13,301	23,301	33,301
Current Liabilities	(47,282)	(70,887)	(61,653)	(52,312)	(53,405)	(54,375)
Creditors	(23,589)	(39,334)	(46,121)	(36,780)	(37,873)	(38,843)
Short term borrowings	(23,693)	(31,553)	(15,532)	(15,532)	(15,532)	(15,532)
Long Term Liabilities	(83,027)	(98,875)	(73,986)	(73,986)	(73,986)	(73,986)
Long term borrowings	(75,932)	(93,574)	(66,607)	(66,607)	(66,607)	(66,607)
Other long term liabilities	(7,095)	(5,301)	(7,379)	(7,379)	(7,379)	(7,379)
Net Assets	164,778	160,048	159,896	164,395	169,803	179,441
CASH FLOW						
Operating Cash Flow	29,756	52,668	53,390	51,135	56,853	59,835
Net Interest	(6,993)	(7,301)	(6,429)	(3,784)	(3,663)	(3,645)
Tax	(979)	(3,203)	(2,996)	(8,469)	(10,180)	(11,339)
Capex	(10,678)	(2,134)	0	(16,738)	(25,790)	(28,506)
Acquisitions/disposals	(1,423)	(53,083)	27	0	0	0
Financing	0	0	949	0	0	0
Dividends	(1,866)	(4,021)	(7,802)	(13,497)	(16,224)	(14,457)
Net Cash Flow	7,817	(17,074)	37,139	8,649	997	1,887
Opening net debt/(cash)	98,866	95,542	119,647	78,660	70,011	69,015
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	0
Closing net debt/(cash)	95,542	119,647	78,660	70,011	69,015	67,127

Source: Tourism Holdings, Edison Investment Research

Contact details	Revenue by geography
Level 1, 83 Beach Road, Auckland 1010 New Zealand +64 (0)9 9336 4299 www.thlonline.com	

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 2012-16e	45.4%	ROCE 15e	8.7%	Gearing 15e	42.6%	Litigation/regulatory	○
EPS 2014-16e	4.7%	Avg ROCE 2012-16e	6.8%	Interest cover 15e	8.0x	Pensions	○
EBITDA 2012-16e	10.8%	ROE 15e	10.9%	CA/CL 15e	1.0	Currency	◖
EBITDA 2014-16e	2.3%	Gross margin 15e	74.1%	Stock days 15e	13.7	Stock overhang	○
Sales 2012-16e	6.8%	Operating margin 15e	12.2%	Debtor days 15e	24.4	Interest rates	◖
Sales 2014-16e	3.5%	Gr mgn / Op mgn 15e	6.1x	Creditor days 15e	31.3	Oil/commodity prices	○

Management team

CEO: Grant Webster

Grant Webster joined the company in 2005 and was appointed CEO in December 2008. Qualified in finance and accounting, he has held senior executive roles in the tourism, hospitality and retail industries. His previous position was GM of SKYCITY Auckland.

CFO: Mark Davis

Mark Davis was appointed CFO in February 2014. He has extensive experience in senior finance roles in the media, gaming and tourism sectors. He has qualifications in finance and accounting and is a member of the New Zealand Institute of Chartered Accountants.

Chairman: Rob Campbell

Rob Campbell appointed as a director in May 2013. He has been the chairman since August 2013 and has a background in capital markets, finance and private equity. Other public company directorships include Summerset Group and Precinct Properties. He is a trained economist and has held a variety of positions in the capital markets advisory and governance fields.

Principal shareholders	(%)
Milford Asset Management	17.8
Sterling Grace Capital Management LP	17.1
Accident Compensation Corporation	9.5
Hauraki Motor Home	5.8
Alpine Bird (New Zealand)	4.7

Companies named in this report

Air NZ (AIR.NZ), Amalgamated Holdings (AHD.AU), Ardent Leisure (AAD.AU), Fleetwood (FWD.AU), Qantas (QAN.AU), Flight Centres (FLT.AU), Village Roadshow (VRL.AU), Avid Budget Group Inc (CAR.US), Hertz Global Holdings (HTZ.US)

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 9258 1161	Wellington +64 (0)48 948 555
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 25, Aurora Place	Level 15, 171 Featherston St
60325 Frankfurt	London, WC1V 7EE	10167, New York	88 Phillip St, Sydney	Wellington 6011
Germany	United Kingdom	US	NSW 2000, Australia	New Zealand